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ABSTRACT

In order to determine the financial concerns and needs of higher education institutions and preparatory schools, 200 telephone interviews were conducted during January and February 1990 with 150 colleges or universities and 50 preparatory schools randomly selected and located in New England and the Mid-Atlantic states. Results showed that schools appear to be stable though facing financial problems. However, more than 25 percent dip into endowment funds to cover operating costs. Financial problems include curtailed aid programs for students, enrollment decreases, and collection and cash flow problems. Sixty-eight percent of schools have currently outstanding loans, most from banks or a state authority, with the funds used for capital improvements, maintenance, and bridge financing. Schools tend to be loyal bank customers, and many use outside investment managers. Schools monitor their cash position manually using internal ledgers, telephone contacts, and monthly statements. Schools look to banks primarily for deposits, investment, and cash management services and are generally satisfied with their banks. Banking problems mentioned were errors and fees, while reasons to terminate a banking relationship were the bank's own financial difficulties, low interest rates or poor services. (JB)

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"Making the Grade"

The Chemical Bank Study of Colleges, Universities & Prep Schools

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"Making the Grade"

To provide the high quality education our world demands, schools need to be strong academically—and strong financially. Through the Not-For-Profit area of Chemical's Middle Market Banking Group, Chemical Bank provides financial services that help prep schools, colleges and universities in many ways.

We lend working capital to cover seasonal cash swings. Equipment, dorms, class buildings, and other physical plant needs we help meet with loans. Our cash management services help make the treasurer's office more efficient, while saving and making money.

Strong educational institutions build a strong future —for students, for American business, and for the country as a whole. We all benefit. And we all share responsibility—individual and corporate citizens alike.

Support for education takes many forms at Chemical Bank. We support our neighborhood school systems financially, with gifts in kind, and through sponsored educational events such as the well-known "Lincoln Douglas Debates." Through our matching gift program, Chemical Bank and our employees give many thousands of dollars every year to colleges and universities throughout the country. And the dedicated officers of our Not-For-Profit area provide custom-tailored financial services to help each school make the most of its resources.

In commissioning and publishing "Making the Grade," Chemical hopes to contribute to higher education's understanding of itself, and thereby to contribute to a strong and healthy future for us all.

Making the Grade

How the study was accomplished

The goal of "Making the Grade" was to determine the financial concerns and needs of higher education institutions.

Two hundred telephone interviews were conducted during January and February 1990 with financial decision-makers—150 at colleges or universities and 50 at prep schools. We concentrated on the New England and Mid-Atlantic regions: New York, New Jersey, Pennsylvania, Connecticut, Rhode Island, Massachusetts, Delaware, Vermont and New Hampshire.

The schools to be included were chosen by random probability sample drawn from all the colleges and prep schools in the two regions, based on Peterson's and Barron's guides. The results can be applied across the board with a 95% confidence level, with a tolerance for error of plus or minus 3.02% to 6.93%. The survey was conducted by an independent marketing research firm, Market Analytics, Inc.

Making the Grade

Schools appear stable, though grappling with financial problems

Over all, the schools in these regions seem financially stable. The vast majority rate their school's financial position as strong. Sixteen percent say that though their financial position is weak, it is stable or improving. Only 1% say they are in financial decline.

School's Financial Condition

Q. How would you rate your school's financial condition?

	Total
Base:	200
Strong	80%
Weak but stable	11
Weak but improving	5
Weak and declining	1
Don't know/NA/refused	5

Use of Endowment Fund

While saying they are financially stable, more than a quarter dip into endowment funds to cover operating costs—possibly using interest, rather than principal.

Q. How often do you use your endowment fund to cover operating expenses?

	Total
Base:	200
Very often	9%
Somewhat often	11
Not very often	16
Not at all	54
Use interest earnings/do not access principal	6%
% Having an Endowment Fund	90%

School's Financial Problems

The schools' funding is under pressure from every direction: curtailed aid programs make it more difficult for students to meet rising costs. And even as costs increase, enrollment decreases. "Back office" difficulties —collecting amounts due and managing cash flow—are another area of concern.

Q. What would you say is the biggest financial problem facing schools like yours?

	Total
Base	200
Sources of financial aid/funding from state/federal gov't.	19%
Low/declining enrollment	18
Having sufficient/adequate revenues/ capital to keep going	17
Rising cost of tuition	14
Rising operating costs/costs/growing faster than revenues	14
Collecting tuition/parents/students having difficulty paying higher tuitions	8
Modernization/fund to modernize/ capital projects	7
Cash flow/balancing receipts & disbursements	6

Making the Grade

Most schools borrow

68% of the schools have loans outstanding now, and 77% have borrowed recently. Borrowed money is used to finance capital improvements, maintenance, and as bridge financing.

Uses of "Last Loan" Funds

Q. For what purposes were the funds from your last loan used?

	Total
Base:	155
Capital improvements	83%
Facilities maintenance	10
Bridge financing	6
Working capital	5
Debt consolidation	1
Average amount of outstanding loans/credit	$6118M
% Have Had A Loan Some Time In The Past	77%

"Last Loan" Lending Institutions

Banks compete with state agencies as lenders to schools. Nearly half of those who have borrowed recently borrowed from a bank and more than a third borrowed from a state authority. Only one in ten financed through a bond issuer.

Q. From what type of financial institution were the funds borrowed?

	Total
Base:	155
Banks	41%
State higher educational facilities authority	35
Bond insurer	10
Local/municipal/county/ authority	2
IDA	1
Financed ourselves	1
Federal gov't./federal loan	1
Sallie Mae	1
Individual board members	1
Other	7%

Use of "Next Loan" Funds

Nearly one-third expect to borrow in the near future. The lender of choice is often the state higher education authority, because of their low-cost, pooled financing.

Q. For what purpose will the funds be used?

	Total
Base:	61
% Plan to Borrow	31%
-Colleges	38
-Prep Schools	8
Average amount	$8910M
Capital improvements	90%
Debt consolidations/refinancing	7
Bridge financing	3
Facilities maintenance	3
Working capital	2

"Next Loan" Lending Institutions

Q. From what type of financial institutions do you expect to borrow these funds?

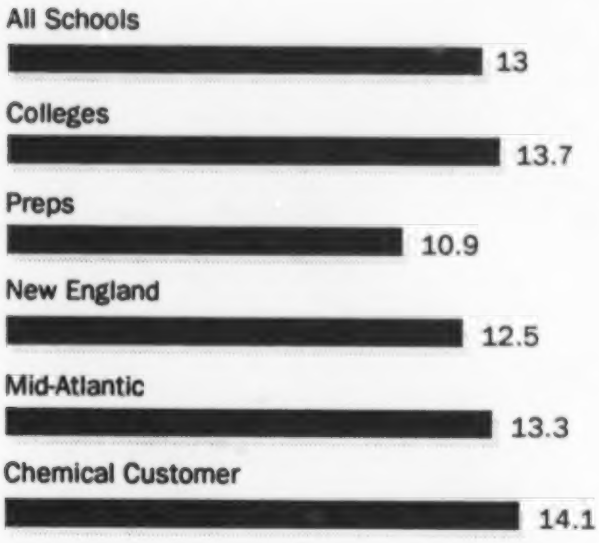
		Geographic Region	
	Total	Mid-Atlantic	New England
Base:	61	46	15
State Higher Ed Facilities Authority	28%	22%	47%
Bond insurer	24	28	13
Bank	11	6	27
IDA	5	6	-
Local/municipal/county authority	5	6	-
Other	8	11	-
Don't know	19	21	13

Making the Grade

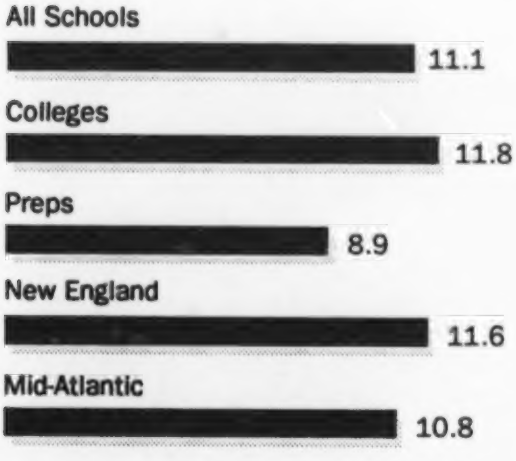
How schools use banks

Schools are loyal customers. The average school in our survey deals with 3.4 banks in total, but has worked with its main bank for 13 years. On average, schools use 11 different bank products or services (colleges use more than prep schools). In general, prep schools show less financial sophistication, compared to colleges.

Average Length of Relationship with Main Bank (in years).



Products Used



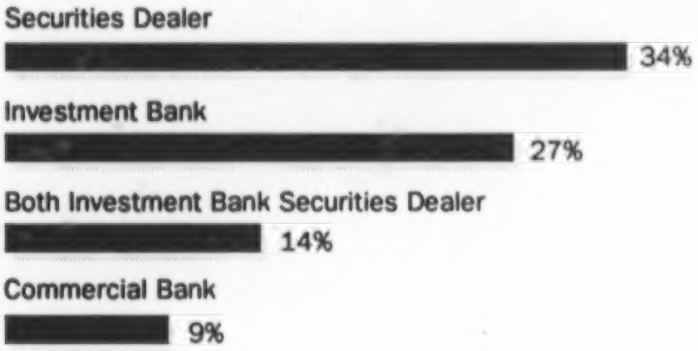
Product/Service Usage
Outside Investment and Interest Rate Management

More than half the schools employ outside investment managers—typically securities dealers or investment banks.

Q. As I read a list of different accounts, please tell me if your school currently uses or has it.

	Total
Base:	200
Outside investment manager	56%
Outside student loan administrators	26
Outside acquisition services	8
Interest rate management	7

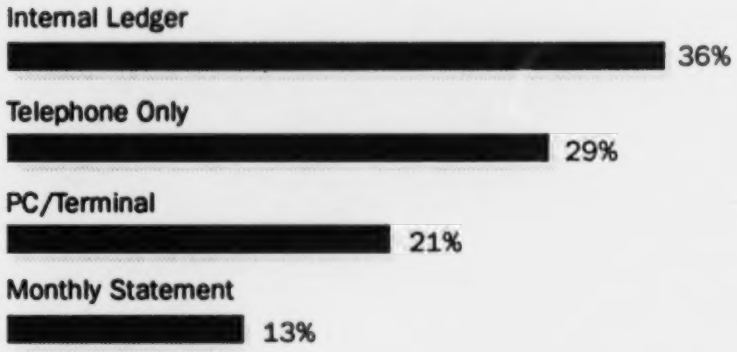
Investment Management (Using)



Cash Management

Unlike commercial companies, most schools still monitor their cash position manually. More than one-third still use internal ledgers, more than one-quarter use the phone and more than one in ten rely on their monthly statements. Only one in five uses a personal computer or terminal to monitor balances, debits, and credits.

Cash Balances and Positions
Unlike businesses, most schools still monitor cash position by manual means.



77% monitor their balances daily and 77% are V/S interested in monitoring them by PC or terminal.

Making the Grade

How schools view their banking needs

Schools have very different financial priorities compared to commercial companies. Other research Chemical has done placed credit and good, personal service at the top for companies. Schools look to banks primarily for deposits, investment, and cash management services. Even though most schools borrow, they rank credit seventh as a reason to start a new banking relationship.

Wedge Services

Q. If you were going to add or start using a new bank or other financial institution, for which types of accounts or services would you be most likely to begin a new banking relationship?

	Total
Base:	200
Checking account/disbursement accounts	17%
Savings and investment accounts	14
Investment management	9
Cash management services	9
Payroll accounting/processing	7
Custodial or trust services	6
Credit	4
Investment banking/financial advisory	2
Student loan programs	2
Depositories	2
Credit cards/processing/services	2
Other/don't know	10
Would start using new bank	69%

Problems with Banks

Schools are generally satisfied with their banks. No one specific area emerges as a problem area in servicing. Note, too, that 46% of the respondents said they have had no bank problems.

Q. Thinking now of all your experiences, what types of problems, if any, have you had in dealing with the Bank(s) and financial institutions you use?

	Total
Base:	200
Account Errors/Mistakes	11%
Service charges/fees too high	5
Lack of responsiveness	5
Slow resolution of problems	4
Lack of personal attention	4
Not innovative enough	4
Deposits/transfers not always properly credited	4
Don't understand the needs of my school	3
Don't understand the needs of the educational market	3
Bank policy does not fit my needs	3
% Having Problems	54%

Reasons For Dropping Bank/Decreased Importance

Errors and fees are the problems most often cited; the reasons for actually leaving a bank are different. Of the schools which dropped a bank, 20% did so because the bank was in financial difficulties itself. Ten percent did so because of low interest rates, 10% for poor cash management services, and 10% for poor general services.

Q. Within the past year or so, have you dropped, stopped using or reduced your use of any bank or other type of financial institution?

	Total
Base:	40
They were having financial difficulties	20%
Interest on deposits/ investments too low	10
Poor cash management	10
More/better services available/more knowledgeable at other bank	10
Wanted to consolidate finances in one bank	8
Location not convenient/other bank closer	8
% Dropping A Bank/Decreased Importance	20%

Though for some schools the hill is very steep, New England and Mid-Atlantic schools in general are, in fact, making the grade. Their banks can help in many ways:

- by carefully structuring loan packages to deliver the best terms
- by introducing more sophisticated products, such as interest rate risk management tools, to help schools manage budgets better
- by helping to install cash management services that increase control and improve cash flow
- and by applying techniques used in the commercial world to answer financial problems in academe.

For information about Chemical Bank services designed for education, or for details about this survey, please call Andres Bello, Vice President, at 212 309-4238.